

## SERVICE AND SAFETY AWARD CONSIDERATIONS

Awards of tangible personal property given to employees for length-of-service or safety achievement are not considered employee income if the value of the award does not exceed limits specified in the Internal Revenue Code. The value limits are:

- A. \$400.00 per employee per year for all awards presented under a nonqualified plan; or
- B. \$1,600 per employee per year under a qualified written plan that does not favor highly compensated employees and that has an average benefit award of \$400 or less per employee over the year.

Service or safety awards must be awarded as part of a meaningful presentation and awarded under conditions and circumstances that do not create a significant likelihood of the payment of disguised compensation. In determining the \$400 average cost, awards of nominal value are not taken into account.

If the cost of the award is larger than the limits provided above, the employee must include in gross income the higher of (1) the amount by which the award's cost exceeds the limit (but not greater than the value of the award); or (2) the amount by which the value of the award exceeds the allowable limit.

There are limits on the number of service or safety awards that can be excluded from income.

A service award will not be excluded from employee income if it is received within the employee's first five years of employment or if the employee received a similar award (other than one of de-minimis value) during the current year or the preceding four years. A safety award will not be excluded from employee income if safety awards (other than those of de-minimis value) were granted during the year to more than 10% of the employees (excluding managers, administrators, clerical employees and other professional employees) or were granted to a manager, administrator, clerical employee, or other professional employee.